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INFO RUEHQ/T/AMEMBASSY QUITO 2486
RUCNMER/MERCOSUR COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOC/DEPT OF COMMERCE WASHDC
RUEKJCS/SECDEF WASHDC
RUEAIIA/CIA WASHDC
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UNCLAS SANTIAGO 000648

STATE PLEASE PASS TO USTR KATE KALUTKIEWICZ
STATE PLEASE PASS TO FEDERAL RESERVE TOM CONNORS
TREASURY FOR BLINDQUIST
COMMERCE FOR KMANN

SIPDIS

E.O. 12958: N/A

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SUBJECT: CHILE: ECONOMIC HIGHLIGHTS JUNE 6 - JULY 10

REFS: SANTIAGO 533 AND PREVIOUS

11. SUMMARY: Chile's economy contracted for the seventh straight month by 4.4%, the Central Bank reported July 3. The Finance Minister claimed Chile's economy has stabilized, but a noted economist associated with the opposition disagreed. The unemployment rate increased for the sixth period in a row to 10.2%. Despite a small uptick in the Consumer Price Index, annual inflation continued to fall to 1.9%. Chile's Central Bank cut the key interest rate to 0.5% and adopted measures to improve liquidity in financial markets and access to credit. By July 10, copper prices closed lower than 2009 highs seen in June, the Peso rose against the Dollar, and the stock market lost ground. END SUMMARY.

Seventh Month of Economic Contraction

12. The Central Bank reported July 6 that the monthly economic activity indicator (Imacec) contracted by 4.4% in May 2009 compared with the same month in 2008. This is the seventh straight decrease.

The reduction in the Imacec follows a fall of 4.6% in April 2009. The Imacec is regarded as a proxy for GDP growth in Chile, as it includes 90% of the same goods and services used to calculate GDP. Industrial and trade activity were hardest hit, especially the seafood and forestry sectors. The Central Bank's survey of economic expectations from key experts and analysts in Chile (released July 9) found that the majority now expect the economy to shrink by 1.5% in 2009.

13. Finance Minister Andres Velasco told the press that Chile had passed through the worst of the economic downturn and its economy had stabilized. However, noted economist and current advisor to opposition presidential candidate Sebastian Pinera, Juan Andres Fontaine, said in a press interview that it was unlikely Chile's economy would recover in the second quarter of 2009, as many have predicted. Fontaine believed May's Imacec showed the GOC's efforts at economic stimulus were not bearing fruit.

Unemployment Rises For Sixth Period In A Row

14. The National Statistics Institute (INE) reported June 30 that the national unemployment rate climbed to 10.2% during March - May 2009 (from 9.8% during February - April 2009). This is the sixth straight increase in the national unemployment rate, which hit double-digits for the first time (long-expected by most experts). Unemployment increased in 9 of Chile's 15 regions, hit double digits in 18 of Chile's 33 largest cities (reaching almost 17% in the key

port city of Valparaiso), and rose to 10.2% in the greater Santiago area.

Inflation Shows Small Uptick

¶15. On July 7, the INE reported the Consumer Price Index increased in June by 0.3% compared with May. This marked a departure from recent months of negative inflation, but was not enough to break the fall in the CPI's annualized growth rate to 1.9%. The CPI is currently at 0.8% since the start of 2009. The slight uptick in inflation was blamed on rising prices in transport and utilities.

Seventh Consecutive Interest Rate Cut

¶16. On July 9, the Central Bank cut the key interest rate (monetary policy rate) by 25 basis points bringing it to its minimum of 0.5%. The Bank announced this rate would remain in effect for a "prolonged" period of time, possibly 6 months. Since the beginning of the year, when the monetary policy rate was at 8.25%, the Central Bank has reduced the rate seven months in a row, by a total of 775 basis points.

¶17. The Central Bank announced additional measures designed to improve liquidity in the financial system and promote access to capital for consumers and businesses. The Bank will:

- Establish a short-term Liquidity Facility through which banks can borrow needed capital for 90 or 180 days at the current monetary policy rate.
- Adjust the Bank's plan for the sale of its debt instruments (i.e., bonds) valid for less than a year, so as to reinforce the short-term Liquidity Facility.
- Suspend the sale of new Bank debt instruments valid for a year or more for the rest of 2009 (e.g., Central Bank Two-Year bonds, and Central Bank Discount One-Year Bonds)

Copper Prices Close Lower Than June's Highs

¶18. On the London Metals Exchange, copper closed at approximately \$2.19/pound on July 10 (a 4% decrease compared to the close of \$2.29/pound on June 5, and down from 2009 highs in June).

Chilean Peso Rises Against Dollar

¶19. On July 10, the observed exchange rate closed at approximately 552 Chilean Pesos to 1 U.S. Dollar (an appreciation of about 2.5% from the close on June 5). The GOC has recently had to sell assets held in U.S. Dollars from its Sovereign Wealth Funds to help finance the economic stimulus package.

Stock Market Loses Ground

¶10. The IPSA closed at 3061.77 on July 10, down almost 5% on the close of June 5.

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